

**Implementation of the Remote Examination  
Toll-Free Telephone Program Is Ongoing**

**December 2001**

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DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

December 7, 2001

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

A handwritten signature in cursive script, reading "Pamela J. Gardiner".

FROM: Pamela J. Gardiner  
Deputy Inspector General for Audit

SUBJECT: Final Audit Report - Implementation of the Remote Examination  
Toll-Free Telephone Program Is Ongoing (Audit #200140041)

This report presents the results of our review to determine if the Internal Revenue Service's (IRS) Remote Examination Toll-Free Telephone Program provides the best possible customer service and expedites the resolution of audits.

In summary, we found that the IRS' efforts to implement the Remote Examination Toll-Free Telephone Program are ongoing. As of November 2000, the IRS had successfully installed the necessary toll-free telephone equipment in each of its Remote Examination sites and had made available to taxpayers under audit a unique toll-free telephone number to be used to contact the IRS during the audit process. IRS telephone statistics showed that, during October 2000 through May 2001, taxpayers placed approximately 1 million telephone calls to the 5 Wage and Investment Division Remote Examination sites (Andover, Atlanta, Austin, Fresno, and Kansas City).

Although the IRS is in its early stages of implementing the Remote Examination Toll-Free Telephone Program, key issues need to be addressed to ensure taxpayer burden is minimized. These key issues include the assignment of audits, attempts to contact taxpayers via telephone, and the accuracy of recorded tax information messages.

In addition to minimizing taxpayer burden, addressing these issues will further the Remote Examination Toll-Free Telephone Program goal of improved customer service through the more expedient completion of the audit process. The Commissioner, Wage and Investment Division, should ensure that: 1) audits are assigned to one IRS auditor from start to finish, thereby providing a single contact point for taxpayers during the audit process; 2) auditors attempt to respond by telephone to taxpayers who provide the

IRS with their telephone numbers for this purpose; 3) quality review procedures are revised to ensure attempts are made to contact taxpayers by telephone when additional information is needed to complete the audit; and 4) all pre-recorded audit-related messages are accurate.

Management's Response: Management's response was due on November 30, 2001. As of December 3, 2001, management had not responded to the draft report.

Copies of this report are also being sent to the IRS managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Michael R. Phillips, Acting Assistant Inspector General for Audit (Wage and Investment Income Programs), at (202) 927-7085.

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## Implementation of the Remote Examination Toll-Free Telephone Program Is Ongoing

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### Background

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In May 1998, as part of its ongoing efforts to improve customer service to taxpayers, the Internal Revenue Service (IRS) began an initiative to establish a toll-free telephone program to be used by the Remote Examination function.<sup>1</sup> This Toll-Free Telephone Program is intended to provide a customer service vehicle for taxpayers to contact the IRS' Remote Examination function during the audit process. As of November 2000, the IRS had successfully installed the necessary toll-free telephone equipment in each of its Remote Examination sites and had made available to taxpayers under audit a unique toll-free telephone number should the taxpayer need to contact the IRS during the audit process.

The Remote Examination toll-free telephone number is detailed on all IRS audit correspondence sent to taxpayers and enables these taxpayers to obtain immediate answers to tax questions, clarification, and resolution of audit issues. Specifically, taxpayers have the ability to directly contact the auditor responsible for conducting the audit of their income tax return or listen to pre-recorded audit-related messages on general tax law and IRS audit procedures.

IRS telephone statistics showed that, during the period October 2000 through May 2001, taxpayers had placed approximately 1 million telephone calls to the 5 Wage and Investment (W&I) Division Remote Examination sites.<sup>2</sup>

Although the IRS is in its early stages of implementing the Remote Examination Toll-Free Telephone Program, key issues need to be addressed to ensure taxpayer burden is minimized (See pages 2, 4 & 5). By addressing these issues, the IRS will further the Remote Examination Toll-Free Telephone Program goal of improved customer service through the more expedient completion of the audit process.

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<sup>1</sup> The IRS' Remote Examination function performs audits of tax returns through the mail, with the IRS typically asking taxpayers for more support regarding one or two issues on the tax return.

<sup>2</sup> The five W&I Division Remote Examination sites are located at the Andover, Atlanta, Austin, Fresno, and Kansas City Tax Processing Centers.

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### **Audits Were Not Always Assigned to a Single Auditor to Provide Taxpayers with a Single Point of Contact During the Audit Process**

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This audit was performed at the National Remote Examination Office located at the Brookhaven Tax Processing Center and the IRS' five W&I Division Remote Examination sites from May to September 2001. The audit was conducted in accordance with *Government Auditing Standards*. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

Audits of taxpayer tax returns were not always assigned to a single IRS auditor to provide taxpayers with a single point of contact during the audit process, as required by the IRS Restructuring and Reform Act of 1998 (RRA 98).<sup>3</sup>

RRA 98 § 3705 requires that the IRS provide taxpayers with the ability to speak directly to one auditor responsible for completing the audit of their tax returns. In addition, the RRA 98 mandates that IRS audit correspondence sent to taxpayers after they are initially notified of being selected for audit contain specific contact information should the taxpayer need to contact the auditor responsible for the review of their tax returns. This specific contact information should include the assigned auditor's name, identification number, and specific telephone number with extension.

In our review of audit assignment procedures at the five W&I Division Remote Examination sites, we found that four sites (Andover, Austin, Atlanta, and Kansas City) were in compliance with RRA 98 audit assignment procedures and were providing required contact information on audit correspondence. However, at the fifth site (Fresno), taxpayer audits were not assigned to a specific IRS auditor as required. Further, audit correspondence sent to these taxpayers after the IRS' initial examination letter did not contain required contact information should the taxpayer need to speak with the auditor reviewing his or her tax return.

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<sup>3</sup> IRS Restructuring and Reform Act of 1998 (RRA 98), Pub. L. No. 105-206 Section 3705 passed July 22, 1998.

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IRS records show a total of 45,000<sup>4</sup> taxpayers responded to the Fresno site during the period June 2000 to July 2001. Since the audits of these tax returns were not assigned to a single IRS auditor in accordance with RRA 98 guidelines, these taxpayers could not rely on dealing with one IRS auditor throughout the process should they need to contact the IRS. Instead, these taxpayers faced the likelihood of dealing with a number of different IRS auditors with varying degrees of familiarity with their cases.

Remote Examination management and the on-site Quality Review staff at the Fresno site misinterpreted guidance issued by the National Remote Examination Office. Specifically, the guidance related to the need to assign audits to a single auditor and to ensure IRS audit correspondence contains specific required contact information.

Furthermore, the National Remote Examination Office did not monitor available telephone activity reports that may have assisted in the identification of the program weakness at the Fresno site. For example, Fiscal Year 2001 telephone management information reports for Fresno showed approximately 5,000 direct taxpayer telephone calls to an assigned auditor number versus a general number. In contrast, the other four sites showed a range of 40,000 to 72,000 direct telephone calls to an assigned auditor number.

### **Recommendation**

The Commissioner, W&I Division, should ensure that:

1. Remote Examination sites comply with the RRA 98 mandates relating to the assignment of audits and the inclusion of specific contact information on IRS audit correspondence. This compliance may be ensured by the National Remote Examination Office reviewing monthly telephone activity reports in conjunction with

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<sup>4</sup> Information obtained from the IRS' Audit Information Management System (AIMS) closed audit database. AIMS is the database system used to control all Remote Examination audits at each tax-processing center.

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local Quality Review staff assessments of site compliance with RRA 98 provisions.

Management's Response: Management's response was due on November 30, 2001. As of December 3, 2001, management had not responded to the draft report.

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### Attempts Were Not Made by Auditors to Contact Taxpayers by Telephone When Additional Information Was Needed to Complete the Audit

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IRS auditors were not attempting to contact taxpayers by telephone when additional information was needed to complete the audits, despite the fact that taxpayers provided their telephone number for this purpose. We randomly selected and reviewed 186 open audit cases from the Andover and Fresno Remote Examination sites (106 from Andover and 80 from Fresno). We identified 30 cases where the taxpayers provided the IRS with a telephone number in response to being notified that they were selected for audit. Our review found that in all 30 cases,<sup>5</sup> the IRS needed additional information to complete the audit. However, auditors did not attempt to contact the taxpayer by telephone to discuss the additional information needed. Instead, a letter was mailed to the taxpayer requesting the additional information needed to complete the audit.

IRS guidelines, although not clear as to when or for what purpose, suggest auditors attempt to call taxpayers if telephone numbers are provided by the taxpayer. Audit correspondence to a taxpayer requests a telephone number from the taxpayer if additional information is needed to complete the audit. The guidance is related to instances where the taxpayer requests an additional explanation regarding information needed to complete the audit.

The ability of the Remote Examination Toll-Free Telephone Program to expeditiously complete audits is diminished because the IRS does not have the authority to accept verbal information provided by taxpayers. Specifically, the IRS is unable to close an audit based on verbal statements made by a taxpayer to support questioned information on his or her tax return. The IRS can verbally discuss the information needed from the taxpayer; however, the taxpayer must

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<sup>5</sup> The IRS does not maintain statistics to allow us to determine the potential number of taxpayers that may be affected.



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provide the IRS with written documentation to support the audit issue in question.

National Remote Examination Quality Review guidelines did not alert quality reviewers to the need to assess and provide feedback to sites on whether auditors were attempting to contact taxpayers who provided telephone numbers when additional information was needed to complete the audit. In addition, the lack of attempting to call taxpayers to discuss additional information needed to close the audit rather than to sending a letter may result from difficulties the IRS had in moving from a completely paper audit process to a more balanced paper and telephone audit process.

When IRS auditors do not attempt to contact taxpayers by telephone when additional information is needed to complete the audit, they are bypassing an opportunity to further the Remote Examination Toll-Free Telephone Program goal of improved customer service through the more expeditious completion of the audit process.

### Recommendations

The Commissioner, W&I Division, should ensure that:

2. Auditors attempt telephone contact with taxpayers who provide the IRS with a telephone number when additional information is needed to complete the audit.
3. National Remote Examination Quality Review procedures are revised to require on-site reviewers to assess and provide feedback on whether attempts are made to contact taxpayers by telephone if a telephone number was provided when additional information is needed to complete the audit.

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### Pre-Recorded Audit-Related Messages Were Not Always Accurate

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The text prepared by the National Remote Examination Office to record audit-related messages on general tax law accurately reflected the tax law. However, these messages were not always accurately recorded from the prepared text. Specifically, we judgmentally selected and listened to three of the nine pre-recorded general tax law messages (Tax Year 2000 Foster Child, Earned Income Tax Credit, and Innocent Spouse) offered to taxpayers calling the Austin and

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Fresno sites. Based on test calls made to these sites, we found that at the Fresno site the “Tax Year 2000 Foster Child” message was erroneously recorded; it referred to a “decendent,” while the law states “descendant.”

- **Requirements outlined in tax law:** “When claiming a foster child for purposes of Earned Income Tax Credit, the following rules must be met: 1) the child is your brother, sister, stepbrother, or stepsister (or a **descendant**...).”
- **As stated in the recorded message:** “When claiming a foster child for purposes of Earned Income Tax Credit, the following rules must be met: 1) the child is your brother, sister, stepbrother, or stepsister (or a **decendent**...).”

IRS policy requires that information provided to taxpayers on the application of the tax law must be comprehensive, accurate, and timely.

Extensive procedures were in place to ensure the accuracy of the prepared text used to record the tax information messages; however, management did not ensure that a process was in place to verify the messages were accurately recorded from this text. When we raised the above concerns to the attention of the National Remote Examination Office, immediate corrective action was initiated.

During the period October 1, 2000, to May 31, 2001, approximately 3,100 taxpayers contacted the Fresno Remote Examination site and selected to hear the inaccurately recorded “Tax Year 2000 Foster Child” information. Based on the inaccurate information in this message, these taxpayers may have made an incorrect determination with respect to the claiming of a foster child on their tax returns.

### Recommendation

The Commissioner, W&I Division, should ensure that:

4. Procedures are developed and implemented for the verification of information recorded in tax information messages included in the Remote Examination Toll-Free Telephone Program.

#### Detailed Objective, Scope, and Methodology

The overall objective of this review was to determine if the Internal Revenue Service's (IRS) Remote Examination Toll-Free Telephone Program provides the best possible customer service and expedites the resolution of audits. To accomplish our objective we performed the following work:

- I. To determine if Remote Examination<sup>1</sup> assigned audits to specific auditors subsequent to receipt of a taxpayer's response to the initial examination contact letter and provided the assigned auditor's name, identification number, and telephone extension in future audit correspondence with the taxpayer, we:
  - A. Reviewed the IRS Restructuring and Reform Act of 1998 (RRA 98)<sup>2</sup> and the internal IRS guidelines to identify requirements for the assignment of Remote Examination cases and the need to add specific contact information on audit correspondence sent to the taxpayer.
  - B. Reviewed audit assignment procedures at the five Wage and Investment (W&I) Division Remote Examination sites to determine if audits were assigned in accordance with RRA 98 requirements.
  - C. Obtained 33 examples of audit correspondence sent to taxpayers subsequent to the taxpayer responding to the IRS' initial examination contact letter. Examples were selected and reviewed from the five W&I Division Remote Examination sites (12 from Andover, 18 from Fresno, and 1 each from Atlanta, Austin, and Kansas City) to determine whether the correspondence contained the required contact information, including the specific auditor's name, identification number, and telephone extension.
  - D. Interviewed Remote Examination management to determine why adequate controls were not in place to ensure audits were properly assigned to specific auditors subsequent to receipt of a taxpayer's response to the initial examination contact letter and required information (the assigned auditor's name, identification number, and telephone extension) was provided in future correspondence with the taxpayer.

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<sup>1</sup> Audits performed by the IRS' Remote Examination function are conducted through the mail, with the IRS typically asking taxpayers for more support regarding one or two issues on the return.

<sup>2</sup> IRS Restructuring and Reform Act of 1998 (RRA 98), Pub. L. No. 105-206 Section 3705 passed July 22, 1998.

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- E. Obtained data from the Audit Information Management System<sup>3</sup> Closed Case file database for the period June 2000 to July 2001 to identify the number of taxpayers whose rights/entitlements may have been affected as a result of noncompliance with RRA 98 requirements.
- II. To determine if Remote Examination auditors attempted to contact by telephone those taxpayers who provided telephone numbers when subsequent information was needed from the taxpayer to close the audit, we:
  - A. Reviewed internal IRS guidance to identify specific requirements regarding auditor contact with taxpayers by telephone during the course of the audit.
  - B. Selected a judgmental sample of 186 open audit cases from the Andover and Fresno Remote Examination sites (106 from Andover and 80 from Fresno). Cases were selected during a 2-day on-site visit at each of the sites. We reviewed the audit cases and selected 30 of the 186 open audit cases meeting the following criteria: a) the taxpayer provided a telephone contact number when responding to the initial examination contact letter and b) the taxpayer did not provide sufficient documentation to close the examination and a subsequent IRS contact with the taxpayer was necessary. We are unable to determine the size of the universe since management does not maintain statistics on taxpayer replies with telephone numbers. For the 30 cases selected, we determined whether the auditor attempted to contact the taxpayer to discuss the additional information needed from the taxpayer to close the audit.
  - C. Interviewed Remote Examination management to determine why adequate controls were not in place to ensure that telephone contacts are made when taxpayers provide telephone numbers and additional information is needed from the taxpayer to close the audit.
  - D. Analyzed IRS data to quantify the number of taxpayers who provided the IRS with a telephone number in response to the initial audit contact letter and required a further contact from the IRS to obtain additional information to close the audit.
- III. To determine if developed text for tax information messages was accurate and whether the information contained in the developed text was accurately recorded, we:
  - A. Reviewed internal IRS guidelines regarding the accuracy of information provided to taxpayers.
  - B. Reviewed prepared text and listened to recorded tax information messages to determine whether both the prepared text and the tax information messages were accurate with respect to the tax law. Specifically, we:

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<sup>3</sup> AIMS is the database system used to control all Remote Examination audits at each tax-processing center.

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1. Obtained the National Remote Examination Office approved version of the prepared text for the following judgmental random sample of three of nine available tax law information messages:
  - Announcement #637 - Earned Income Tax Credit General Information.
  - Announcement #656 - Innocent Spouse General Information.
  - Announcement #660 - Tax Year 2000 Foster Child.

The sampling technique was judgmental since the program was new and no historical records were available to determine the tax law topics previously requested by taxpayers telephonically.

- C. Reviewed the Internal Revenue Code (I.R.C.) for tax law requirements relative to the above selected tax information messages.
  - D. Compared the I.R.C. requirements to the National Remote Examination approved prepared text to determine whether the prepared text was accurate with respect to the tax law.
  - E. Accessed and listened to the above randomly selected tax information messages available to taxpayers at the Fresno and Austin Remote Examination sites to determine whether the messages were accurately recorded (i.e., are consistent with prepared text). We selected the Fresno and Austin tax processing centers due to the high volume of EIC related audits for fiscal year 2001 being conducted at these sites.
  - F. Interviewed Remote Examination management to determine why adequate controls were not in place to ensure that developed text for tax information messages was accurately recorded.
  - G. Obtained statistics to identify the number of taxpayers potentially affected by inaccurately recorded tax law information messages.
- IV. To determine if the organizational structure within the Remote Examination Office was conducive to the efficient use of the Remote Examination Toll-Free Telephone Program, we interviewed Remote Examination management to identify the various organizational structures used at the Andover, Fresno, and Kansas City Remote Examination sites to determine how the Toll-Free Telephone Program is staffed to handle taxpayer calls. We selected these tax-processing centers since they were included in recent EIC related TIGTA audits within the Remote Examination function.

**Major Contributors to This Report**

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Kerry Kilpatrick, Director

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#### Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. These benefits will be incorporated into our Semiannual Report to the Congress.

##### Type and Value of Outcome Measure:

- Taxpayer Burden – Potential; 45,000 taxpayers affected<sup>1</sup> (see page 2).

##### Methodology Used to Measure the Reported Benefit:

- Obtained statistical data from the National Remote Examination Office staff related to the number of audits closed with a taxpayer response during the audit process at the Fresno Remote Examination site; this site did not always assign an audit to a specific auditor, as required by the Internal Revenue Service (IRS) Restructuring and Reform Act of 1998 (RRA 98).<sup>2</sup>
- Requested AIMS closed audits from June 2000 to July 2001 where the taxpayer either called or sent a letter to the Fresno Remote Examination site regarding an audit of their return to determine the number of taxpayers whose audits were not assigned as required by the RRA 98.
- Identified that 45,000 taxpayers replied to the Fresno Remote Examination site and could have had the audit of their tax return assigned to a specific auditor and been provided with the assigned auditor's name, identification number, and telephone number with extension.

##### Type and Value of Outcome Measure:

- Taxpayer Burden – Potential; 3,067 taxpayers affected (see page 5).

##### Methodology Used to Measure the Reported Benefit:

- Obtained the IRS' Toll-Free Telephone Program Application Activity Reports for the Fresno Remote Examination<sup>3</sup> site for the period October 1, 2000, to May 31, 2001.
- Reviewed the obtained reports to identify the number of taxpayers who contacted the Fresno site to hear the tax information message for Tax Year 2000 Foster Child.

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<sup>1</sup> Information obtained from the IRS' Audit Information Management System (AIMS) closed audit database. AIMS is the database system used to control all Remote Examination audits at each tax-processing center.

<sup>2</sup> IRS Restructuring and Reform Act of 1998 (RRA 98), Pub. L. No. 105-206 Section 3705 passed July 22, 1998.

<sup>3</sup> Audits performed by the IRS' Remote Examination function are conducted through the mail, with the IRS typically asking taxpayers for more support regarding one or two issues on the return.



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- Identified that 3,067 taxpayers contacted the Fresno Remote Examination site to listen to the Tax Year 2000 Foster Child message and could have made an incorrect determination with respect to the claiming of a foster child based on the inaccuracy in the message.